
PUBLIC STORAGE CANADIAN PROPERTIES

**(A Limited Partnership Governed By
The Limited Partnerships Act Of Ontario)**

2007

THIRD QUARTER REPORT

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Management's Discussion and Analysis of Financial Conditions and Results of Operations

Dated November 12, 2007

Forward-Looking Statements

This discussion of the financial condition and results of operations of Public Storage Canadian Properties ("PSCP" or the "Partnership") contains forward-looking statements regarding, among other things, the Partnership's beliefs, plans, objectives, strategies, estimates, intentions and expectations, including as they relate to its operating and financial results, capital expenditures, distribution policy and financing strategies and the ability to execute on its operating, development and financing strategies. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "believe", "potential", "expect", "estimate", "would", "could", "intend", "will", "if" and "may". These forward-looking statements are based on a number of assumptions which may prove to be incorrect, including management's current expectations, estimates and assumptions about the markets the Partnership operates in, the Canadian economic environment, interest rates, exchange rates, the Partnership's ability to attract and retain customers and to manage its mini-warehouse assets and operating costs, assumptions respecting the availability and cost of construction materials and labour, there being limited costs, difficulties or delays related to obtaining construction and operating permits or as a result of adverse weather conditions and expectations respecting the useful life of assets of the Partnership. Forward-looking statements involve known and unknown risks, uncertainties and other facts which may cause actual results or developments to differ materially from those contemplated or implied by these statements depending on, among others, such factors as:

- the accuracy of management's assumptions;
- the failure of the Partnership to manage acquisitions;
- delays in "rent - up" of new facilities of the Partnership;
- losses of key personnel may affect the Partnership's ability to operate effectively;
- the leverage of the Partnership;
- restrictive covenants in the Partnership's credit facility and the Partnership Agreement contain restrictions that limit the Partnership's flexibility in operating the business;
- the Partnership may incur significant environmental costs and liabilities;
- litigation risks;
- property taxes can increase and cause a decline in yields on investments;
- competition has affected the occupancy levels, rental rates and operating expenses of some of the Partnership's facilities;
- the value of the Partnership's properties may be reduced by the general risks of rental real estate ownership including lack of demand for rental spaces or units in a locale, changes in general economic or local conditions, changes in supply of or demand for similar or competing facilities in an area, changes in environmental, real estate, zoning or tax laws, and changes in interest rates;
- rental real estate development (including the development of mini-warehouse facilities) is subject to timing, budgeting and other risks including construction delays or cost overruns that may increase project costs;
- the Partnership does not own the trade-mark "Public Storage";
- the Partnership's properties compete with other properties managed by the General Partner of the Partnership which operate under the trade-mark "Public Storage";
- there may be situations in which conflicts of interest may arise between the General Partner of the Partnership and its respective officers and directors in relation to the interests of the Partnership;
- the Hughes Family (as defined below) controls the Partnership; and
- implications of new tax legislation (see also "Tax Treatment and Notices").

This list is not exhaustive of the factors that may affect any of the Partnership's forward-looking statements. Investors and others should carefully consider these and other factors and not place undue reliance on these forward-looking statements. Further information regarding these and other factors is included in the Partnership's public filings with Canadian securities regulatory authorities including the section titled "Risk Factors" in the Partnership's Annual

Information Form. The forward-looking statements contained in this discussion of the consolidated financial condition and results of operations of the Partnership represent the Partnership's views only as of the date hereof. While the Partnership anticipates that subsequent events and developments may cause the Partnership's views to change, the Partnership does not undertake to update any forward-looking statements except as required by law.

General

Public Storage Canadian Properties is a publicly held limited partnership formed under the *Limited Partnership Act* (Ontario). The Partnership owns, and derives substantially all of its income from, 24 self-storage facilities, of which fifteen are located in Ontario, five are located in British Columbia, three are located in Québec and one is located in Alberta. In addition, the Partnership owns parcels of land in Oakville, Ontario and Laval, Québec for development into self-storage facilities.

The facilities are operated under the trade name "Public Storage" and are managed by the General Partner pursuant to a separate property management agreement. The General Partner of the Partnership is Canadian Mini-Warehouse Properties Company ("CMP" or the "General Partner"). All of the shares of CMP are beneficially owned by B. Wayne Hughes. Entities controlled by B. Wayne Hughes and certain members of his family beneficially owned 3,896,942 units of the Partnership ("Units") including the Units owned by CMP, or approximately 53.9% of the outstanding Units as at September 30, 2007.

Significant Transactions

On May 1, 2007, the Partnership announced the acquisition of a property located at 1310 Dundas Street in Woodstock, Ontario for a purchase price of approximately \$3,498,000. This existing self-storage facility consists of six newly constructed single storey buildings with approximately 35,000 net rentable square feet, 300 storage units and 100 parking spaces. Two of the buildings are climate controlled. The Partnership is constructing four additional buildings at an estimated cost to the Partnership of approximately \$800,000. The four new buildings are expected to provide an additional 20,000 net rentable square feet and 170 storage units. Construction is expected to be complete in the fourth quarter of 2007.

On June 26, 2007, the Partnership announced the opening of a newly constructed self-storage facility located at 28 Estate Drive in Scarborough, Ontario near Highway 401 and Markham Road. The facility consists of 2 single-storey buildings and a four-storey climate-controlled building with approximately 86,000 net rentable square feet and 962 storage units. The total cost to develop this facility (including the purchase price) was approximately \$11,156,000 (including trailing construction costs of \$41,000).

On June 28, 2007, the Partnership announced the opening of a newly constructed self-storage facility located at 955 Autoroute Chomedey in Laval, Québec at the South East corner of Highway 13 and Notre Dame Blvd. The facility consists of a four-storey climate-controlled building with approximately 84,000 net rentable square feet and 947 storage units. The total cost to develop this facility was approximately \$7,195,000 (including trailing construction costs of \$116,000). The Partnership leases the land on which this facility is situated pursuant to a 40-year land lease agreement. The Partnership has the option to purchase the land after 10 years at an option price of \$1,550,000.

On September 3, 2007, the Partnership announced the acquisition of a property located at 1333 North Service Road in Oakville, Ontario encompassing 10.34 acres of land for a purchase price of \$6,741,000. The Partnership intends to remove the existing prefabricated soft dome buildings and develop 4.25 acres of the land. The Partnership intends to sever the remaining 6.09 acres and sell it to interested developers. The total cost to develop this property (including the purchase price net of expected proceeds from sale of excess land) into a self-storage facility is expected to be approximately \$11,825,000. The vendor will lease back the land until March 2008 at a rate of \$20,000 per month, during which time the Partnership is free to begin entitlement work and preliminary site servicing work.

On September 11, 2007, the Partnership announced the acquisition of a property located on Tessier Boulevard in Laval, Québec encompassing 1.79 acres of vacant land for a purchase price of \$700,000. The total cost to develop this property (including the purchase price) into a self-storage facility is expected to be approximately \$9,500,000. This property is located just east of Autoroute 15 at Boulevard Carrefour.

The Partnership has the right to acquire a property located at 9355 Leslie Street in Richmond Hill, Ontario encompassing 3.26 acres of vacant land. The Partnership has satisfied itself or waived conditions to closing in its favour respecting completion of its due diligence investigation. The acquisition cost of the land is expected to be approximately \$3,342,000. The total cost to develop this property (including the purchase price) into a self-storage facility is expected to be approximately \$11,655,000. This property is located on the east side of Leslie Street, just north of 16th Avenue, which offers a view of Richmond Hill's business centre and adjoining residential areas and positions the property in a high-traffic area of one of Canada's fastest growing municipalities.

Estimates of costs to develop these properties have been prepared without information on exact unit mix and architectural drawings and the actual costs may exceed the current estimates. Management's plans and expectations respecting the acquisition and development of these properties are subject to various assumptions, including assumptions respecting the availability and cost of construction materials and labour, there being limited costs, difficulties or delays related to obtaining construction and operating permits and the ability of the Partnership to sever and sell a portion of the property and the net proceeds realizable therefrom. Management's plans and expectations are also subject to various known and unknown risks, uncertainties and other facts, including the risk that management's assumptions may prove to be inaccurate, timing budgeting and other risks, including construction delays or cost overruns that may increase project costs, and risk factors. See "Forward-Looking Statements" on page 2.

On October 15, 2007, the Partnership announced that the Partnership completed its rights offering (the "Rights Offering") for units of the Partnership. An aggregate of 1,808,036 units were issued in connection with the Rights Offering for aggregate net proceeds of approximately \$36 million. Approximately 87.9% of the rights issued to holders of units ("Unitholders") were exercised, resulting in the issuance of 1,589,463 units. The remaining 218,573 units were issued to holders of rights who not only exercised their rights but also elected to subscribe for additional units available as a result of unexercised rights. Proceeds from the Rights Offering were used to repay amounts outstanding under the Partnership's credit facility. The Hughes Family exercised all their rights and acquired 986,734 units upon exercise and 142,290 additional units pursuant to the Additional Subscription Privilege. The Hughes family owned 5,045,966 units or approximately 55.8% of the outstanding units as at October 15, 2007.

Outstanding Securities

As at November 12, 2007, there were 9,040,181 Units outstanding.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The Partnership's significant accounting policies are outlined in Note 2 of the Partnership's audited annual consolidated financial statements and have been consistently followed over the periods covered by the financial statements, except that on January 1, 2007 the Partnership adopted the guidelines governed by Section 1530 and 3855 of the CICA handbook, "Comprehensive Income" and "Financial Instruments – Recognition and Measurement". The adoption of these policies did not have a material impact on the financial statements.

Revenue Recognition Policy

Rental income is recognized in the period in which the customer occupies the storage unit pursuant to the terms of a month-to-month agreement. Payments received prior to the period in which the customer occupies the storage unit are recorded as advance payments from renters and recognized as income in the future periods to which they relate.

Operating Results

Net income of the Partnership was \$1,677,000 or \$0.23 per Unit for the three months ended September 30, 2007 compared to \$2,062,000 or \$0.29 per Unit for the same period in 2006. The decrease in net income was due primarily to additional amortization expense and interest expense associated with the "New" facilities placed in service (as defined below).

Net income of the Partnership was \$6,275,000 or \$0.87 per Unit for the nine months ended September 30, 2007 compared to \$5,613,000 or \$0.95 per Unit for the same period in 2006. The increase in aggregate net income includes the recognition of a future tax asset of \$1,060,000 due to the implications on the Partnership's current tax status as a limited partnership arising from amendments to the *Income Tax Act* (Canada) intended to eliminate certain

tax advantages presently enjoyed by certain investors in publicly-traded specified investment flow-through trusts or partnerships, like the Partnership. This future tax benefit relates to the Partnership's share of the temporary difference between the accounting and tax basis of the Partnership's assets expected to reverse after the date that the amendments are expected to apply. The amendments are not expected to apply to the Partnership until 2011 provided that the Partnership complies with the normal growth guidelines issued by the Department of Finance. See "Tax Treatment and Notices". The decrease in net income per unit was due to the increase in the number of outstanding units of the Partnership as a result of the completion of a rights offering by the Partnership in June, 2006.

Economic and industry factors, specifically increased competition from newer facilities in the Toronto market, remain unchanged from those described in the Annual Report of the Partnership for the year ended December 31, 2006.

Property Operations

In order to evaluate the performance of the Partnership's portfolio, management reports the performance of the "Same Store" facilities separately from the performance of the "New" facilities.

"Same Store" Facilities

"Same Store" facilities are facilities that have been owned and operated at a mature, stabilized occupancy level since January 1 of the earliest period presented. Management considers a facility to be stabilized after it has been opened for at least three years. Management considers the operating performance of the "Same Store" facilities to be a more useful measure of the overall operating performance of the Partnership's portfolio to analyze trends and provide meaningful comparisons.

As at September 30, 2007, the "Same Store" facilities consist of 16 self-storage facilities located in the provinces of Ontario and British Columbia and contain approximately 1,235,000 net rentable square feet and 11,181 storage units. The first of these properties opened in August 1979, and the last of these properties to commence operations opened in January 1987.

Effective October 1, 2007, the Partnership will remove one facility from the pool of "Same Store" facilities. This facility has been identified for redevelopment and will no longer provide meaningful comparative data for the future periods presented. See "Repositioning".

"New" Facilities

In November 2000, the Unitholders amended the Partnership Agreement to permit the Partnership to expand its portfolio of mini-warehouses by taking advantage of favourable acquisition opportunities as they arise. The Partnership has sought to expand its portfolio of self-storage facilities by acquiring and/or developing self-storage facilities at attractive yields.

"New" facilities are facilities that have been recently acquired and/or developed by the Partnership and were not owned or operated at a mature, stabilized occupancy level since January 1 of the earliest period presented. Generally, these facilities are still in their initial "fill-up" stage and do not provide meaningful comparisons to prior periods. The Partnership will reclassify these properties to "Same Store" facilities once they have been owned and operated at a mature, stabilized occupancy level as of January 1 of the earliest period presented.

As at September 30, 2007, the "New" facilities consist of 8 self-storage facilities and contain approximately 718,000 net rentable square feet and 8,012 storage units.

In order to evaluate the performance yields of the Partnership's recent acquisitions, management further reports the "New" facilities by the year in which they were acquired and/or developed. The following table provides information on the "New" facilities as at September 30, 2007:

| Location | Date Acquired or Opened | Cost | Net Rentable Square Feet | Storage Units | Ending Occupancy |
|---------------------------------|-------------------------|----------------------|--------------------------|---------------|------------------|
| <u>"2005" Facilities</u> | | | | | |
| Calgary, Alberta (a) | March 2005 | \$ 8,653,000 | 74,000 | 798 | 69.5% |
| Surrey, British Columbia | April 2005 | 6,328,000 | 57,000 | 699 | 88.5% |
| | | <u>14,981,000</u> | <u>131,000</u> | <u>1,497</u> | |
| <u>"2006" Facilities</u> | | | | | |
| Montréal, Québec | March 2006 | 8,847,000 | 92,000 | 950 | 28.5% |
| St. Laurent, Québec (b) | June 2006 | 15,084,000 | 216,000 | 2,381 | 73.5% |
| Vancouver, British Columbia | July 2006 | 11,480,000 | 74,000 | 975 | 40.9% |
| | | <u>35,411,000</u> | <u>382,000</u> | <u>4,306</u> | |
| <u>"2007" Facilities</u> | | | | | |
| Woodstock, Ontario (c) | May 2007 | 3,498,000 | 35,000 | 300 | 89.6% |
| Toronto, Ontario (d) | June 2007 | 11,156,000 | 86,000 | 962 | 11.7% |
| Laval, Québec (e) | June 2007 | 7,195,000 | 84,000 | 947 | 17.2% |
| | | <u>21,849,000</u> | <u>205,000</u> | <u>2,209</u> | |
| | | <u>\$ 72,241,000</u> | <u>718,000</u> | <u>8,012</u> | |

- (a) In June 2006, the Partnership sold a parcel of excess land in Calgary, Alberta for net proceeds of \$760,000. The Partnership recognized a gain on disposition of \$137,000 during the nine months ended September 30, 2006.
- (b) The Partnership incurred \$533,000 of renovation costs during the nine months ended September 30, 2007.
- (c) The Partnership will be constructing four additional buildings for approximately \$800,000. The four new buildings will provide an additional 20,000 net rentable square feet and 170 storage units. Construction is expected to be complete in the fourth quarter of 2007.
- (d) The Partnership incurred \$41,000 of trailing construction costs during the nine months ended September 30, 2007.
- (e) The Partnership incurred \$116,000 of trailing construction costs during the nine months ended September 30, 2007.

The following table summarizes the net operating income (“NOI”) of the properties for the three and nine months ended September 30, 2007 and 2006. NOI is equal to rental income less cost of operations and management fees paid to CMP before amortization. This non-GAAP financial measure does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers.

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|--|----------------------------------|---------------------|--------|---------------------------------|---------------------|--------|
| | 2007 | 2006 | Change | 2007 | 2006 | Change |
| <u>Rental income:</u> | | | | | | |
| “Same Store” facilities | \$ 4,581,000 | \$ 4,370,000 | 4.8% | \$ 13,208,000 | \$ 12,766,000 | 3.5% |
| “2005” facilities..... | 469,000 | 406,000 | | 1,349,000 | 984,000 | |
| “2006” facilities..... | 784,000 | 697,000 | | 2,225,000 | 817,000 | |
| “2007” facilities..... | 121,000 | - | | 178,000 | - | |
| | <u>5,955,000</u> | <u>5,473,000</u> | 19.3% | <u>16,960,000</u> | <u>14,567,000</u> | 21.0% |
| <u>Cost of operations:</u> | | | | | | |
| “Same Store” facilities | 1,270,000 | 1,256,000 | 0.2% | 3,866,000 | 3,863,000 | (0.4%) |
| “2005” facilities..... | 142,000 | 170,000 | | 443,000 | 501,000 | |
| “2006” facilities..... | 400,000 | 298,000 | | 1,235,000 | 485,000 | |
| “2007” facilities..... | 190,000 | - | | 232,000 | - | |
| | <u>2,002,000</u> | <u>1,724,000</u> | 18.6% | <u>5,776,000</u> | <u>4,849,000</u> | 20.8% |
| <u>Management fees: (a)</u> | | | | | | |
| “Same Store” facilities | 275,000 | 262,000 | 1.5% | 793,000 | 766,000 | 2.8% |
| “2005” facilities..... | 28,000 | 24,000 | | 81,000 | 59,000 | |
| “2006” facilities..... | 48,000 | 41,000 | | 134,000 | 48,000 | |
| “2007” facilities..... | 7,000 | - | | 11,000 | - | |
| | <u>358,000</u> | <u>327,000</u> | 19.2% | <u>1,019,000</u> | <u>873,000</u> | 21.1% |
| <u>Net operating income (loss):</u> | | | | | | |
| “Same Store” facilities | 3,036,000 | 2,852,000 | 6.5% | 8,549,000 | 8,137,000 | 4.3% |
| “2005” facilities..... | 299,000 | 212,000 | | 825,000 | 424,000 | |
| “2006” facilities..... | 336,000 | 358,000 | | 856,000 | 284,000 | |
| “2007” facilities..... | (76,000) | - | | (65,000) | - | |
| | <u>\$ 3,595,000</u> | <u>\$ 3,422,000</u> | 19.6% | <u>\$ 10,165,000</u> | <u>\$ 8,845,000</u> | 21.2% |

- (a) Management fees are payable to CMP pursuant to the terms of the amended and restated management agreement between the Partnership and CMP dated as of January 1, 1999 (the “Management Agreement”). Management fees are equal to 6% of Gross Operating Revenues (defined below) of each property, calculated monthly. “Gross Operating Revenue” means all cash receipts (excluding security deposits paid by tenants unless and until recognized as income by the Partnership) received by or on behalf of the Partnership under each lease of space on the properties.

“Same Store” Facilities

The following table summarizes the pre-amortization operating results of the Partnership’s “Same Store” facilities.

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|----------------------------------|---------------------|-------------|---------------------------------|---------------------|-------------|
| | 2007 | 2006 | Change | 2007 | 2006 | Change |
| Rental income (a): | | | | | | |
| British Columbia | \$ 790,000 | \$ 737,000 | 7.2% | \$ 2,270,000 | \$ 2,106,000 | 7.8% |
| Ontario | 3,791,000 | 3,633,000 | 4.3% | 10,938,000 | 10,660,000 | 2.6% |
| | 4,581,000 | 4,370,000 | 4.8% | 13,208,000 | 12,766,000 | 3.5% |
| Cost of operations: | | | | | | |
| Property taxes..... | 483,000 | 476,000 | 1.5% | 1,466,000 | 1,435,000 | 2.2% |
| Direct payroll (b)..... | 366,000 | 343,000 | 6.7% | 1,087,000 | 1,023,000 | 6.3% |
| Repairs and maintenance (c)..... | 95,000 | 100,000 | (5.0%) | 330,000 | 370,000 | (10.8%) |
| Utilities (d)..... | 74,000 | 66,000 | 12.1% | 261,000 | 241,000 | 8.3% |
| Advertising (e)..... | 48,000 | 52,000 | (7.7%) | 156,000 | 151,000 | 3.3% |
| Insurance (f)..... | 23,000 | 43,000 | (46.5%) | 72,000 | 128,000 | (43.8%) |
| Other..... | 181,000 | 176,000 | 2.8% | 494,000 | 515,000 | (4.1%) |
| | 1,270,000 | 1,256,000 | 1.1% | 3,866,000 | 3,863,000 | 0.1% |
| Management fees..... | 275,000 | 262,000 | 5.0% | 793,000 | 766,000 | 3.5% |
| Net operating income..... | \$ 3,036,000 | \$ 2,852,000 | 6.5% | \$ 8,549,000 | \$ 8,137,000 | 5.1% |
| Gross margin (g)..... | 66.3% | 65.3% | | 64.7% | 63.7% | |
| Weighted average for period: | | | | | | |
| Occupancy..... | 89.4% | 87.3% | | 87.9% | 87.5% | |
| Realized annual rent per square foot (h)..... | \$16.60 | \$16.21 | 2.4% | \$16.23 | \$15.75 | 3.0% |

- (a) The increases in rental income, net of discounts, were due primarily to rental rate increases offset by higher discounts given to increase occupancy levels. Discounts were \$276,000 and \$980,000 for the three and nine months ended September 30, 2007 compared to \$250,000 and \$952,000 for the same periods in 2006.
- (b) The increases in direct payroll were due to an increase in wage rates compared to the same periods in 2006.
- (c) The decreases in repairs and maintenance expense were due to controlled levels of discretionary spending and various maintenance initiatives implemented in the prior years.
- (d) The increases in utilities expense were due to higher electricity expenses and a colder winter season in the first quarter of 2007 compared to the same period in 2006.
- (e) The decrease in advertising expense during the third quarter of 2007 was due to the allocation of costs among more properties in the Partnership’s portfolio compared to the same period in 2006.
- (f) The decreases in insurance expense were due to a reduction in renewal rates. The new rates were based on a favourable history of losses and claims. Management does not expect this trend to continue in 2008.
- (g) Gross margin is computed by dividing property net operating income by rental income.
- (h) Realized rent per square foot represents the actual revenue earned per occupied square foot. Management believes this is a more relevant measure than posted or scheduled rates as posted rates can be discounted through promotions.

Interest and Other Income

Interest and other income include interest received on cash balances. Interest and other income were \$12,000 and \$57,000 for the three and nine months ended September 30, 2007 compared to \$49,000 and \$72,000 for the same periods in 2006, respectively. The decreases were due to lower average cash balances compared to the prior year.

Gain on Sale of Land

In June 2006, the Partnership sold a parcel of excess land in Calgary, Alberta for net proceeds of \$760,000. The Partnership recognized a gain on disposition of \$137,000 during the nine months ended September 30, 2006.

Amortization of Real Estate Facilities

Amortization expense of real estate facilities was \$1,063,000 and \$2,892,000 for the three and nine months ended September 30, 2007 compared to \$872,000 and \$2,253,000 for the same periods in 2006, respectively. The increases were due to additional amortization expense associated with the "New" facilities placed in service.

Amortization of Intangible Assets

Intangible assets reflect the value of in-place leases acquired in connection with the acquisition of existing self-storage facilities as determined by a third party valuation firm. Intangible assets are amortized on a straight-line basis over 15 months.

Amortization expense of intangible assets was \$366,000 and \$1,031,000 for the three and nine months ended September 30, 2007 compared to \$316,000 and \$316,000 for the same periods in 2006, respectively. The increases were due to additional amortization of in-place leases acquired in connection with existing facilities.

Interest and Commitment Fees

Interest expense and commitment fees were \$403,000 (net of \$23,000 capitalized to construction projects) and \$638,000 (net of \$216,000 capitalized to construction projects) for the three and nine months ended September 30, 2007 compared to \$117,000 (net of \$nil capitalized to construction projects) and \$537,000 (net of \$268,000 capitalized to construction projects) for the same periods in 2006, respectively. The increases in interest expense were due to higher amounts due under the credit facility compared to the same periods in 2006. The Partnership capitalizes certain interest expense incurred during the period a project is being developed and constructed. The weighted average borrowing rate on the credit facility was 5.65% and 5.50% for the three and nine months ended September 30, 2007 compared to nil and 5.14% for the same period in 2006, respectively. The interest rate on the mortgage note payable was 7.879%.

Administrative

Administrative expense consists primarily of professional fees, accounting personnel and reporting issuer costs. Administrative expense was \$98,000 and \$446,000 for the three and nine months ended September 30, 2007 compared to \$104,000 and \$335,000 for the same periods in 2006, respectively. The increase for the nine months ended September 30, 2007 was due primarily to higher professional fees, listing fees and filing fees associated with being a larger public entity.

Income Tax Benefit

The Partnership recorded a future income tax benefit of \$1,060,000 during the nine months ended September 30, 2007 due to the implications on the Partnership's current tax status as a limited partnership arising from amendments to the *Income Tax Act* (Canada) intended to eliminate certain tax advantages presently enjoyed by certain investors in publicly-traded specified investment flow-through trusts or partnerships, including the Partnership. This future tax benefit relates to the Partnership's share of the temporary difference between the accounting and tax basis of the Partnership's assets expected to reverse after the date that the amendments are expected to apply to the Partnership. The amendments are not expected to apply to the Partnership until 2011 provided that the Partnership complies with the normal growth guidelines issued by the Department of Finance. See "Tax Treatment and Notices".

Quarterly Results

The following table presents a summary of selected operating results of the Partnership on a quarterly basis:

| <u>Quarter Ended</u> | <u>Total Revenues</u> | <u>Net Income</u> | <u>Net Income Per Unit</u> |
|----------------------|-----------------------|-------------------|----------------------------|
| December 31, 2005 | \$ 4,630,000 | \$ 1,921,000 | \$ 0.40 |
| March 31, 2006 | 4,328,000 | 1,528,000 | 0.32 |
| June 30, 2006 | 4,926,000 | 2,023,000 | 0.36 |
| September 30, 2006 | 5,522,000 | 2,062,000 | 0.29 |
| December 31, 2006 | 5,319,000 | 1,676,000 | 0.23 |
| March 31, 2007 | 5,341,000 | 1,632,000 | 0.23 |
| June 30, 2007 | 5,709,000 | 2,966,000 | 0.41 |
| September 30, 2007 | 5,967,000 | 1,677,000 | 0.23 |

The following table presents a summary of quarterly revenue and weighted average occupancy of the "Same Store" facilities:

| <u>Quarter Ended</u> | <u>"Same Store" Revenues</u> | <u>Weighted Average Occupancy</u> |
|----------------------|------------------------------|-----------------------------------|
| December 31, 2005 | \$ 4,085,000 | 87.9% |
| March 31, 2006 | 4,058,000 | 87.1% |
| June 30, 2006 | 4,338,000 | 88.2% |
| September 30, 2006 | 4,370,000 | 87.3% |
| December 31, 2006 | 4,199,000 | 85.4% |
| March 31, 2007 | 4,217,000 | 85.6% |
| June 30, 2007 | 4,410,000 | 88.7% |
| September 30, 2007 | 4,581,000 | 89.4% |

Seasonality

The self-storage industry is subject to seasonal fluctuations in occupancy levels with the spring and summer months generating increased rental activity compared to decreased rental activity in the colder winter months. The Partnership experiences the effects of these fluctuations as spring and summer occupancies are typically higher than those in the fall and winter.

Liquidity and Capital Resources

The Partnership had \$280,000 in cash and cash equivalents as at September 30, 2007. The Partnership generates sufficient cash flows from operations to finance its operations, both on a short-term and long-term basis. In addition, the Partnership has a \$40,000,000 revolving credit facility with a commercial bank for general corporate purposes and to provide short term financing for property acquisitions and developments. Net cash provided by (used in) operating activities for the three and nine months ended September 30, 2007 was (\$31,000) and \$8,476,000 compared to \$2,650,000 and \$7,356,000 for the same periods in 2006, respectively. The decrease in working capital during the three months ended September 30, 2007 was due to the payment of accrued construction invoices that existed as at June 30, 2007.

The Partnership owns several new self-storage developments that are currently in the lease-up period and are not expected to contribute the same level of cash flow as a "stabilized" self-storage facility that has been operational for at least three years. Any short term deficiency in meeting obligations as they become due will be funded by the Partnership's \$40,000,000 revolving credit facility.

Credit Facility

The Partnership's existing \$35,000,000 revolving credit facility matures in July 2009. The Partnership temporarily increased the credit facility from \$35,000,000 to \$40,000,000 until March 31, 2008. The credit facility is secured by four real estate facilities and a general security agreement. As at September 30, 2007, amounts due under the credit facility were \$31,000,000. Under the Partnership Agreement, the total amount of secured and unsecured debt of the Partnership will be limited to no more than seven times the earnings of the Partnership before interest, taxes depreciation and amortization for the 12 months ended the immediately preceding financial quarter of the Partnership or approximately \$88,578,000 as at September 30, 2007.

At the Partnership's option, the rate of interest charged on the credit facility is equal to either (i) the prime rate or (ii) a rate equal to the banker's acceptance rate plus an applicable margin of 0.875%. In addition, the Partnership is required to pay a standby fee equal to 0.125% based on the unused portion of the credit facility.

Under the terms of the credit facility, the Partnership is required to (i) maintain a senior funded debt ratio (as defined) of not greater than 4.50 to 1.00 and (ii) maintain a tangible net worth (as defined) of \$60,000,000. As at September 30, 2007, the Partnership was in compliance with the terms of the credit facility.

Capital Improvements

The Partnership has budgeted \$1,400,000 in capital improvements to improve the function and aesthetics of the "Same Store" facilities and expects to incur an additional \$800,000 in renovations and rebranding of the "New" facilities in 2007. Management believes these improvements are necessary to remain competitive with newer facilities in the marketplace. As at September 30, 2007, the Partnership incurred \$1,419,000 or 65% of the budgeted amount and expects to incur the remaining budgeted amount of \$781,000 by the end of the year.

Repositioning

The Partnership has budgeted approximately \$4,000,000 for the redevelopment of an existing facility in Brampton, Ontario. As at September 30, 2007, the Partnership incurred \$106,000 and expects to complete construction by the end of next year.

Property Acquisitions and Developments

Property acquisitions and development costs are funded from the Partnership's cash flows from operations after distributions and from its credit facility. In addition, the Partnership reimburses CMP for out-of-pocket acquisition and construction costs. These costs are capitalized and included in construction in progress.

On May 1, 2007, the Partnership announced the acquisition of a property located at 1310 Dundas Street in Woodstock, Ontario for a purchase price of approximately \$3,498,000. The Partnership will be constructing four additional buildings at an estimated cost to the Partnership of approximately \$800,000. The four new buildings are expected to provide an additional 20,000 net rentable square feet and 170 storage units. As at September 30, 2007, the Partnership incurred \$137,000 of the estimated cost and expects to complete construction by the end of this year.

On September 3, 2007, the Partnership announced the acquisition of a property located at 1333 North Service Road in Oakville, Ontario for a purchase price of \$6,741,000. The total cost to develop this property (including the purchase price net of expected proceeds from sale of excess land) into a self-storage facility is expected to be approximately \$11,825,000. As at September 30, 2007, the Partnership incurred \$6,792,000 of the estimated cost and expects to complete construction by the end of next year.

On September 11, 2007, the Partnership announced the acquisition of a property located on Tessier Boulevard in Laval, Québec for a purchase price of \$700,000. The total cost to develop this property (including the purchase price) into a self-storage facility is expected to be approximately \$9,500,000. As at September 30, 2007, the Partnership incurred \$725,000 of the estimated cost and expects to complete construction by the middle of next year.

Estimates of costs to develop these properties have been prepared without information on exact unit mix and architectural drawings and the actual costs may exceed the current estimates. Management's plans and expectations respecting the acquisition and development of these properties are subject to various assumptions, including assumptions respecting the availability and cost of construction materials and labour, there being limited costs, difficulties or delays related to obtaining construction and operating permits and the ability of the Partnership to sever and sell a portion of the property and the net proceeds realizable therefrom. Management's plans and expectations are

also subject to various known and unknown risks, uncertainties and other facts, including the risk that management's assumptions may prove to be inaccurate, timing, budgeting and other risks, including construction delays or cost overruns that may increase project costs, and risk factors. See "Forward-Looking Statements" on page 2.

Rights Offering

On October 15, 2007, the Partnership announced that the Partnership completed its rights offering (the "Rights Offering") for units of the Partnership. An aggregate of 1,808,036 units were issued in connection with the Rights Offering for aggregate net proceeds of approximately \$36 million. Approximately 87.9% of the rights issued to holders of units ("Unitholders") were exercised, resulting in the issuance of 1,589,463 units. The remaining 218,573 units were issued to holders of rights who not only exercised their rights but also elected to subscribe for additional units available as a result of unexercised rights. Proceeds from the Rights Offering were used to repay amounts outstanding under the Partnership's credit facility. The Hughes Family exercised all their rights and acquired 986,734 units upon exercise and 142,290 additional units pursuant to the Additional Subscription Privilege. The Hughes family owned 5,045,966 units or approximately 55.8% of the outstanding units as at October 15, 2007.

Distributions

The General Partner analyzes the distribution level on a quarterly basis. Among the items considered when determining distribution levels are historical property operations, current cash reserves and obligations of the Partnership, including debt, expected capital expenditures and other factors. The Partnership distributed \$3,254,000 and \$9,762,000 during the three and nine months ended September 30, 2007 compared to \$3,254,000 and \$8,678,000 during the same period in 2006, respectively.

Distributions in excess of the Partnership's cash flow from operations will be funded on a short-term basis from the Partnership's revolving credit facility until the new self-storage developments become stabilized.

The board of directors of CMP also declared a distribution of \$0.45 per Unit to be paid on December 31, 2007 to Unitholders of record at the close of business on December 14, 2007.

Contractual Obligations

The Partnership's major contractual obligations as at September 30, 2007 were as follows:

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>Thereafter</u> | <u>Total</u> |
|-------------------------------|-------------------|----------------------|----------------------|-------------------|-------------------|----------------------|---------------------|
| Mortgage note payable | \$ 29,000 | \$ 121,000 | \$ 131,000 | \$ 141,000 | \$ 153,000 | \$ 4,965,000 | \$ 5,540,000 |
| Credit facility (a) | - | - | 31,000,000 | - | - | - | 31,000,000 |
| Purchase obligations: | | | | | | | |
| Brampton repositioning | - | 3,894,000 | - | - | - | - | 3,894,000 |
| Woodstock development | 663,000 | - | - | - | - | - | 663,000 |
| Oakville development | - | 5,033,000 | - | - | - | - | 5,033,000 |
| Laval development | - | 8,775,000 | - | - | - | - | 8,775,000 |
| Richmond Hill (b) | - | 11,655,000 | - | - | - | - | 11,655,000 |
| Land lease (c) | <u>33,000</u> | <u>132,000</u> | <u>132,000</u> | <u>132,000</u> | <u>132,000</u> | <u>5,679,000</u> | <u>6,240,000</u> |
| Total contractual obligations | <u>\$ 725,000</u> | <u>\$ 29,610,000</u> | <u>\$ 31,263,000</u> | <u>\$ 273,000</u> | <u>\$ 285,000</u> | <u>\$ 10,644,000</u> | <u>\$72,800,000</u> |

- (a) Amount was repaid in full with the proceeds from the rights offering in October 2007.
- (b) The Partnership has the right to acquire a property located at 9355 Leslie Street in Richmond Hill, Ontario for approximately \$3,342,000. The total cost to develop this property (including the purchase price) into a self-storage facility is expected to be approximately \$11,655,000.
- (c) The Partnership entered into a 40 year land lease agreement at a facility in Laval, Quebec and has an option to purchase the land after 10 years. The option price of the land is \$1,550,000.

Tax Treatment and Notices

Taxes based on the income of the Partnership are the responsibility of the individual partners and, accordingly, each Unitholder is responsible for reporting their pro-rata share (allocated based on the amount of distributions received) of the Partnership's income for tax purposes on their tax return. The pro-rata share of income to be recognized is based on the Partnership's income for tax purposes and is not on its reported "book" income. Partnership income for tax purposes and "book" income differ due to difference in the reporting of various items. The major difference is the amount of capital cost allowance recognized for tax purposes versus the amount of amortization recognized for "book" purposes. The majority of this difference resulted from a "step-up" in the basis of real estate assets for "book" purposes in connection with various amalgamations to which the Partnership has been a party. For tax purposes, as the transactions were treated as "tax-free" exchanges, these assets have not been "stepped-up".

The *Income Tax Act* (Canada) has been amended to eliminate tax advantages presently enjoyed by certain investors in publicly-traded specified investment flow-through trusts or partnerships ("SIFTs"), including the Partnership. Very generally, commencing in the Partnership's taxation year ending in 2011, the Partnership will be required to pay tax on its income at rates equivalent to that of a corporation. In addition, income subject to the new tax allocated to holders of Units will be taxed as though received by them as taxable dividends paid by a taxable Canadian corporation. In the case of a Unitholder that is an individual, tax dividend gross-up and tax credit rules regularly applicable to such dividends will then apply to such deemed dividends. A Unitholder that is a corporation will generally be entitled to deduct the amount of such deemed dividends in computing its income for tax purposes. The effect of these measures, generally speaking, will be that income earned by the Partnership will be taxed at combined rates comparable to the rates that apply to income earned and distributed by Canadian corporations.

The above changes will not be expected to apply to the Partnership until the Partnership's taxation year ending 2011, unless the Partnership fails to comply with the normal growth guidelines issued by the Department of Finance (the "Growth Guidelines"). The above changes will apply with respect to any taxation year of the Partnership in which the Partnership exceeds the Growth Guidelines and thereafter.

The Growth Guidelines provide that a SIFT will not be considered to have exceeded "normal growth" if its equity capital were to grow as a result of issuances of new equity, in any of the intervening periods described below, by an amount that does not exceed the greater of \$50 million and an objective "safe harbour". The Growth Guidelines indicate that the safe harbour amount is measured by reference to a SIFT's market capitalization based on the trading price of a SIFT's issued and outstanding publicly-traded units as at the end of trading on October 31, 2006 (the "Market Capitalization"). For the period from November 1, 2006 to the end of 2007, a SIFT's safe harbour is 40% of the Market Capitalization. A SIFT's safe harbour for each of the 2008 through 2010 calendar years is 20% of the Market Capitalization. The annual safe harbour amounts are cumulative, whereas the \$50 million amounts are not cumulative.

There can be no assurance that the Partnership (inadvertently or otherwise) will not exceed the Growth Guidelines before its taxation year ending in 2011, thereby resulting in the earlier application of the tax changes described above. The above changes also do not apply to an entity that qualifies for the real estate investment trust exemption (the "REIT Exemption"). The Partnership is evaluating alternatives to permit it to qualify for the REIT Exemption prior to 2011.

The Partnership recorded a future income tax benefit of \$1,060,000 during the nine months ended September 30, 2007 based on the Partnership's current tax status as a limited partnership. This future tax benefit relates to the Partnership's share of the temporary difference between the accounting and tax basis of the Partnership's assets expected to reverse after the date that the changes are expected to apply.

Funds from Operations (“FFO”) and Earnings before Interest, Taxes, Depreciation and Amortization (“EBITDA”)

FFO and EBITDA are supplementary performance measures for real estate companies used by investors and analysts. These non-“GAAP” financial measures do not have any standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Management, investors and analysts consider FFO and EBITDA to be good measures of the performance of real estate companies because they evaluate the cash generating ability of an entity (in the case of FFO) or its assets (in the case of EBITDA), without taking into account the impact of amortization (and interest, in the case of EBITDA), which may vary significantly between real estate companies based on when particular assets were acquired and financed. FFO is equal to net income computed in accordance with GAAP plus depreciation and amortization. EBITDA is equal to earnings before interest income, interest expense, taxes, depreciation and amortization. EBITDA is utilized in determining the debt capacity of the Partnership. FFO and EBITDA do not take into consideration scheduled principal payments on debt, capital improvements, distributions or other obligations of the Partnership. Accordingly, FFO and EBITDA are not substitutes for the Partnership’s cash flow or net income as a measure of the Partnership’s liquidity or operating performance or ability to pay distributions.

The following table calculates FFO and EBITDA for the three and nine months ended September 30, 2007 and 2006:

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|--------------------------------------|----------------------------------|---------------------|--------|---------------------------------|---------------------|--------|
| | 2007 | 2006 | Change | 2007 | 2006 | Change |
| <u>Calculation of FFO:</u> | | | | | | |
| Net income..... | \$ 1,677,000 | \$ 2,062,000 | | \$ 6,275,000 | \$ 5,613,000 | |
| Amortization of real estate..... | 1,063,000 | 872,000 | | 2,892,000 | 2,253,000 | |
| Amortization of intangibles..... | 366,000 | 316,000 | | 1,031,000 | 316,000 | |
| Less: income tax benefit..... | - | - | | (1,060,000) | - | |
| Less: gain on sale of land..... | - | - | | - | (137,000) | |
| FFO..... | <u>\$ 3,106,000</u> | <u>\$ 3,250,000</u> | (4.4%) | <u>\$ 9,138,000</u> | <u>\$ 8,045,000</u> | 13.6% |
| Weighted average number of Units... | 7,232,145 | 7,232,145 | | 7,232,145 | 5,881,085 | |
| FFO per Unit..... | \$0.43 | \$0.45 | (4.4%) | \$1.26 | \$1.37 | (8.0%) |
| <u>Calculation of EBITDA:</u> | | | | | | |
| Net income..... | \$ 1,677,000 | \$ 2,062,000 | | \$ 6,275,000 | \$ 5,613,000 | |
| Amortization of real estate..... | 1,063,000 | 872,000 | | 2,892,000 | 2,253,000 | |
| Amortization of intangibles..... | 366,000 | 316,000 | | 1,031,000 | 316,000 | |
| Interest and commitment fees..... | 403,000 | 117,000 | | 638,000 | 537,000 | |
| Less: income tax benefit..... | - | - | | (1,060,000) | - | |
| Less: gain on sale of land..... | - | - | | - | (137,000) | |
| Less: interest income..... | (12,000) | (49,000) | | (57,000) | (72,000) | |
| EBITDA..... | <u>\$ 3,497,000</u> | <u>\$ 3,318,000</u> | 5.4% | <u>\$ 9,719,000</u> | <u>\$ 8,510,000</u> | 14.2% |
| Weighted average number of Units... | 7,232,145 | 7,232,145 | | 7,232,145 | 5,881,085 | |
| EBITDA per Unit..... | \$0.48 | \$0.46 | 4.3% | \$1.35 | \$1.45 | (7.6%) |

Consolidated Financial Statements

Public Storage Canadian Properties

(A Limited Partnership Governed by the Limited Partnerships Act of Ontario)

September 30, 2007

Public Storage Canadian Properties

(A Limited Partnership Governed by the Limited Partnerships Act of Ontario)

INTERIM CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | September 30, 2007 | December 31, 2006 |
|--|--------------------|-------------------|
| | \$ | \$ |
| ASSETS | | |
| Cash and cash equivalents | 280,000 | 415,000 |
| Real estate facilities <i>[notes 3, 4, 5 and 6]</i> | | |
| Land and land improvements | 31,391,000 | 23,379,000 |
| Buildings and equipment | 98,243,000 | 78,969,000 |
| | 129,634,000 | 102,348,000 |
| Less accumulated amortization | (32,838,000) | (29,946,000) |
| | 96,796,000 | 72,402,000 |
| Construction in progress | 3,336,000 | 4,904,000 |
| Intangible assets, net <i>[notes 3]</i> | 165,000 | 948,000 |
| Rent and other receivables | 848,000 | 254,000 |
| Other assets | 1,853,000 | 319,000 |
| Future income tax assets <i>[note 7]</i> | 1,060,000 | — |
| Total assets | 104,338,000 | 79,242,000 |
| LIABILITIES AND PARTNERS' EQUITY | | |
| Accounts payable and accrued liabilities <i>[note 6]</i> | 2,380,000 | 1,003,000 |
| Advance payments from renters | 952,000 | 863,000 |
| Amounts due under credit facility <i>[note 4]</i> | 31,000,000 | 3,800,000 |
| Mortgage note payable <i>[note 5]</i> | 5,540,000 | 5,623,000 |
| Commitments and contingencies <i>[note 7]</i> | | |
| Partners' equity | | |
| 7,232,145 partnership units issued and outstanding | 64,466,000 | 67,953,000 |
| Total liabilities and partners' equity | 104,338,000 | 79,242,000 |

See accompanying notes

Public Storage Canadian Properties(A Limited Partnership Governed by the Limited Partnerships Act of Ontario)

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
AND PARTNERS' EQUITY
(Unaudited)**

| | <u>Three Months Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|---|---|-------------------|--|-------------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| | \$ | \$ | \$ | \$ |
| Revenue | | | | |
| Rental income | 5,955,000 | 5,473,000 | 16,960,000 | 14,567,000 |
| Interest and other income | 12,000 | 49,000 | 57,000 | 72,000 |
| Gain on sale of land | — | — | — | 137,000 |
| | 5,967,000 | 5,522,000 | 17,017,000 | 14,776,000 |
| Cost and expenses | | | | |
| Cost of operations | 2,002,000 | 1,724,000 | 5,776,000 | 4,849,000 |
| Management fees [note 6] | 358,000 | 327,000 | 1,019,000 | 873,000 |
| Amortization of real estate facilities | 1,063,000 | 872,000 | 2,892,000 | 2,253,000 |
| Amortization of intangible assets | 366,000 | 316,000 | 1,031,000 | 316,000 |
| Interest and commitment fees | 403,000 | 117,000 | 638,000 | 537,000 |
| Administrative | 98,000 | 104,000 | 446,000 | 335,000 |
| | 4,290,000 | 3,460,000 | 11,802,000 | 9,163,000 |
| Income before taxes | 1,677,000 | 2,062,000 | 5,215,000 | 5,613,000 |
| Income tax benefit [note 7] | — | — | 1,060,000 | — |
| Net income for the period | 1,677,000 | 2,062,000 | 6,275,000 | 5,613,000 |
| Weighted average partnership units outstanding | 7,232,145 | 7,232,145 | 7,232,145 | 5,881,085 |
| Net income per unit | 0.23 | 0.29 | 0.87 | 0.95 |
| Partners' equity, beginning of period | 66,043,000 | 70,762,000 | 67,953,000 | 25,542,000 |
| Net income for the period | 1,677,000 | 2,062,000 | 6,275,000 | 5,613,000 |
| Net proceeds from rights offering | — | (32,000) | — | 47,061,000 |
| Distributions | (3,254,000) | (3,254,000) | (9,762,000) | (8,678,000) |
| Partners' equity, end of period | 64,466,000 | 69,538,000 | 64,466,000 | 69,538,000 |

See accompanying notes

Public Storage Canadian Properties

(A Limited Partnership Governed by the Limited Partnerships Act of Ontario)

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | <u>Three Months Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|--|---|--------------------|--|---------------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| | \$ | \$ | \$ | \$ |
| OPERATING ACTIVITIES | | | | |
| Net income for the period | 1,677,000 | 2,062,000 | 6,275,000 | 5,613,000 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Gain on sale of land | — | — | — | (137,000) |
| Amortization of real estate facilities | 1,063,000 | 872,000 | 2,892,000 | 2,253,000 |
| Amortization of intangible assets | 366,000 | 316,000 | 1,031,000 | 316,000 |
| (Increase) decrease in rent and other receivables | 19,000 | 85,000 | (594,000) | (27,000) |
| Increase in other assets | (660,000) | (55,000) | (1,534,000) | (791,000) |
| Increase in future income tax assets | — | — | (1,060,000) | — |
| Increase (decrease) in accounts payable and accrued liabilities | (2,493,000) | (705,000) | 1,377,000 | (75,000) |
| Increase (decrease) in advance payments from renters | (3,000) | 75,000 | 89,000 | 204,000 |
| Net cash provided by (used in) operating activities | (31,000) | 2,650,000 | 8,476,000 | 7,356,000 |
| INVESTING ACTIVITIES | | | | |
| Proceeds from sale of land | — | — | — | 760,000 |
| Acquisition of real estate facilities | | | | |
| Land and land improvements | — | — | (760,000) | (2,850,000) |
| Buildings and equipment | — | (420,000) | (2,490,000) | (11,458,000) |
| Intangible assets | — | — | (248,000) | — |
| Land Purchase | (4,423,000) | — | (4,423,000) | — |
| Construction of new facilities | (3,250,000) | (1,462,000) | (16,626,000) | (6,921,000) |
| Improvements to real estate facilities | (725,000) | (489,000) | (1,419,000) | (713,000) |
| Net cash used in investing activities | (8,398,000) | (2,371,000) | (25,966,000) | (21,182,000) |
| FINANCING ACTIVITIES | | | | |
| Net proceeds from rights offering | — | (32,000) | — | 47,061,000 |
| Borrowings from credit facility | 11,500,000 | — | 28,500,000 | 4,500,000 |
| Repayments of credit facility | — | — | (1,300,000) | (33,000,000) |
| Mortgage note payable | — | — | — | 5,676,000 |
| Repayments of mortgage note payable | (28,000) | (26,000) | (83,000) | (26,000) |
| Distributions | (3,254,000) | (3,254,000) | (9,762,000) | (8,678,000) |
| Net cash provided by financing activities | 8,218,000 | (3,312,000) | 17,355,000 | 15,533,000 |
| Net increase (decrease) in cash and cash equivalents during the period | (211,000) | (3,033,000) | (135,000) | 1,707,000 |
| Cash and cash equivalents, beginning of period | 491,000 | 5,231,000 | 415,000 | 491,000 |
| Cash and cash equivalents, end of period | 280,000 | 2,198,000 | 280,000 | 2,198,000 |
| Supplemental cash flow information | | | | |
| Interest paid | 419,000 | 111,000 | 903,000 | 650,000 |
| Transfer of construction in progress to real estate facilities: | | | | |
| Land and land improvements | — | 2,925,000 | 2,829,000 | 3,480,000 |
| Buildings and equipment | — | 8,584,000 | 15,365,000 | 16,781,000 |
| Construction in progress | — | (11,509,000) | (18,194,000) | (20,261,000) |

See accompanying notes

Public Storage Canadian Properties

(A Limited Partnership Governed by the Limited Partnerships Act of Ontario)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2007

1. DESCRIPTION OF PARTNERSHIP

Public Storage Canadian Properties (the “Partnership”) is a publicly held limited partnership formed under the *Limited Partnerships Act* (Ontario). The Partnership owns, and derives substantially all of its income from, 24 self-storage facilities, of which fifteen are located in Ontario, five are located in British Columbia, three are located in Québec and one is located in Alberta. In addition, the Partnership owns parcels of land in Oakville, Ontario and Laval, Québec for development into self-storage facilities. The self-storage industry is subject to seasonal fluctuations in occupancy levels with the spring and summer months generating increased rental activity compare to decreased rental activity in the colder winter months. The Partnership experiences the effects of these fluctuations as spring and summer occupancies are typically higher than those in the fall and winter.

The facilities are operated under the trade name “Public Storage” and are managed by the General Partner of the Partnership pursuant to a separate property management agreement [see note 6]. The General Partner of the Partnership is Canadian Mini-Warehouse Properties Company (“CMP”). All of the shares of CMP are beneficially owned by B. Wayne Hughes. Entities owned by B. Wayne Hughes and certain members of his family owned 3,896,942 units of the Partnership (“Units”), including the Units owned by CMP, or approximately 53.9% of the outstanding Units as at September 30, 2007 and December 31, 2006.

2. BASIS OF PRESENTATION

These interim unaudited consolidated financial statements have been prepared by the Partnership in accordance with Canadian generally accepted accounting principles (“GAAP”) with respect to interim financial statements, applied on a consistent basis. These interim unaudited consolidated financial statements follow the same accounting principles and methods of application as those described in Note 2 to the Partnership’s audited consolidated financial statements as at and for the year ended December 31, 2006 except for the new accounting guidelines noted below. Accordingly, they do not include all the information and footnotes required for compliance with Canadian GAAP for annual financial statements. These interim unaudited consolidated financial statements and notes thereon should be read in conjunction with the annual audited consolidated financial statements.

The preparation of these interim unaudited consolidated financial statements and the accompanying notes require management to make estimates and assumptions that affect the amounts reported. In the opinion of management, these interim unaudited consolidated financial statements reflect all adjustments (which include only normal, recurring adjustments) necessary to state fairly the results for the periods presented. Actual results could vary from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

The comparative interim consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year interim consolidated financial statements.

These interim unaudited consolidated financial statements of the Partnership have not been reviewed by our independent auditors.

Effective January 1, 2007, the Partnership adopted the following CICA guidelines:

Section 1530 – Comprehensive Income

Comprehensive income is the change in the Partnership’s net assets that results from transactions, events and circumstances from sources other than the Partnership’s Unitholders and includes items that would not normally be included in net income until realized. The adoption of this policy did not have a material impact on the financial statements.

Section 3855 – Financial Instruments – Recognition and Measurement

Section 3855 requires that all financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are

Public Storage Canadian Properties

(A Limited Partnership Governed by the Limited Partnerships Act of Ontario)

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

September 30, 2007

classified as held for trading; otherwise, they are measured at cost. The adoption of this policy did not have a material impact on the financial statements.

Public Storage Canadian Properties

(A Limited Partnership Governed by the Limited Partnerships Act of Ontario)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2007

3. REAL ESTATE FACILITIES

On May 1, 2007, the Partnership acquired an existing self-storage facility in Woodstock, Ontario. The earnings from this facility are included in the consolidated statements of operations from the date of acquisition. The purchase method of accounting was used and the purchase price was allocated as follows:

| | \$ |
|----------------------------|-----------|
| Land and land improvements | 760,000 |
| Buildings and equipment | 2,490,000 |
| Intangible assets | 248,000 |
| Total purchase price | 3,498,000 |

On June 26, 2007, the Partnership opened a newly constructed self-storage facility in Scarborough, Ontario and reclassified this facility from construction in progress to real estate facilities. The total cost to develop this facility (including land) was approximately \$11,156,000 (including trailing construction costs of \$41,000).

On June 28, 2007, the Partnership opened a newly constructed self-storage facility located in Laval, Québec and reclassified this facility from construction in progress to real estate facilities. The total cost to develop this facility was approximately \$7,195,000 (including trailing construction costs of \$116,000).

4. CREDIT FACILITY

In July 2006, the Partnership amended and extended its credit agreement with the Bank of Montreal (the "Credit Facility"). The \$35,000,000 revolving Credit Facility matures in July 2009. In August 2007, the Partnership temporarily increased the Credit Facility from \$35,000,000 to \$40,000,000 until March 31, 2008. The Credit Facility is secured by four real estate facilities and a general security agreement. As at September 30, 2007, amounts due under the Credit Facility were \$31,000,000 [\$3,800,000 as at December 31, 2006].

At the Partnership's option, the rate of interest charged on the Credit Facility is equal to either (i) the Prime Rate or (ii) a rate equal to the Banker's Acceptance Rate plus an applicable margin of 0.875%. In addition, the Partnership is required to pay a standby fee equal to 0.125% based on the unused portion of the Credit Facility. The weighted average borrowing rate was 5.50% and 5.14% for the nine months ended September 30, 2007 and 2006, respectively.

Under the terms of the Credit Facility, the Partnership is required to (i) maintain a senior funded debt ratio (as defined) of not greater than 4.50 to 1.00 and (ii) maintain a tangible net worth (as defined) of at least \$60,000,000. As at September 30, 2007 and December 31, 2006, the Partnership was in compliance with the terms of the Credit Facility.

5. MORTGAGE NOTE PAYABLE

In July 2006, the Partnership assumed a 7.879% mortgage note payable of \$5,676,000 in connection with the acquisition of an existing self-storage facility in St. Laurent, Québec. The note payable is secured by this facility and matures in November 2012.

Interest expense on the mortgage note payable for the nine months ended September 30, 2007 was \$325,000 [2006 – \$128,000].

6. RELATED PARTY TRANSACTIONS

Pursuant to the terms of the amended and restated management agreement dated as at January 1, 1999, between CMP and the Partnership (the "Management Agreement"), CMP manages the operations of the mini-warehouses facilities of the Partnership for a management fee of 6% of Gross Operating Revenue (as defined in the Management Agreement). Management fees were \$1,019,000 for the nine months ended September 30, 2007 [2006 - \$873,000].

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September 30, 2007

In addition to management fees, the Partnership reimburses CMP for any reasonable expenses or costs it incurs, or disbursements it makes on behalf of the Partnership in connection with its duties as General Partner and property manager (e.g., advertising, insurance and support services, etc.). Out-of-pocket costs paid by CMP were \$1,077,000 for the nine months ended September 30, 2007 [2006 - \$832,000]. These amounts are included in cost of operations and administrative expense.

The Partnership also reimbursed CMP for out-of-pocket internal acquisition and construction management costs of \$212,000 for the nine months ended September 30, 2007 [2006 - \$125,000]. These amounts were capitalized and included in the cost of real estate facilities and construction in progress.

These transactions are in the normal course of operations and are measured at the exchange amount which represents the consideration established and agreed to by the related parties.

As at September 30, 2007, the Partnership owed \$362,000 to CMP [\$507,000 as at December 31, 2006]. These amounts are included in accounts payable and accrued liabilities.

7. COMMITMENTS AND CONTINGENCIES

Due to the size, complexity and nature of the Partnership's operations, various legal matters are pending. It is not possible at this time to predict with any certainty the outcome of such litigation. Management believes that any settlements related to these matters will not have a material effect on the Partnership's consolidated financial position or results of operations.

The *Income Tax Act* (Canada) has been amended to eliminate tax advantages presently enjoyed by certain investors in publicly-traded specified investment flow-through trusts or partnerships ("SIFTs"), including the Partnership. Very generally, commencing in the Partnership's taxation year ending in 2011, the Partnership will be required to pay tax on its income at rates equivalent to that of a corporation. In addition, income subject to the new tax allocated to holders of Units will be taxed as though received by them as taxable dividends paid by a taxable Canadian corporation. In the case of a Unitholder that is an individual, tax dividend gross-up and tax credit rules regularly applicable to such dividends will then apply to such deemed dividends. A Unitholder that is a corporation will generally be entitled to deduct the amount of such deemed dividends in computing its income for tax purposes. The effect of these measures, generally speaking, will be that income earned by the Partnership will be taxed at combined rates comparable to the rates that apply to income earned and distributed by Canadian corporations.

The above changes will not be expected to apply to the Partnership until the Partnership's taxation year ending 2011, unless the Partnership fails to comply with the normal growth guidelines issued by the Department of Finance (the "Growth Guidelines"). The above changes will apply with respect to any taxation year of the Partnership in which the Partnership exceeds the Growth Guidelines and thereafter.

The Growth Guidelines provide that a SIFT will not be considered to have exceeded "normal growth" if its equity capital were to grow as a result of issuances of new equity, in any of the intervening periods described below, by an amount that does not exceed the greater of \$50 million and an objective "safe harbour". The Growth Guidelines indicate that the safe harbour amount is measured by reference to a SIFT's market capitalization based on the trading price of a SIFT's issued and outstanding publicly-traded units as at the end of trading on October 31, 2006 (the "Market Capitalization"). For the period from November 1, 2006 to the end of 2007, a SIFT's safe harbour is 40% of the Market Capitalization. A SIFT's safe harbour for each of the 2008 through 2010 calendar years is 20% of the Market Capitalization. The annual safe harbour amounts are cumulative, whereas the \$50 million amounts are not cumulative.

The Partnership recorded a future income tax benefit of \$1,060,000 during the nine months ended September 30, 2007 based on the Partnership's current tax status as a limited partnership. This future tax benefit relates to the Partnership's share of the temporary difference between the accounting and tax basis of the Partnership's assets expected to reverse after the date that the changes are expected to apply.

Public Storage Canadian Properties

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2007

8. SUBSEQUENT EVENTS

On October 15, 2007, the Partnership announced that the Partnership completed its rights offering (the "Rights Offering") for units of the Partnership. An aggregate of 1,808,036 units were issued in connection with the Rights Offering for aggregate net proceeds of approximately \$36 million. Approximately 87.9% of the rights issued to holders of units ("Unitholders") were exercised, resulting in the issuance of 1,589,463 units. The remaining 218,573 units were issued to holders of rights who not only exercised their rights but also elected to subscribe for additional units available as a result of unexercised rights. Proceeds from the Rights Offering were used to repay amounts outstanding under the Partnership's Credit Facility.

The Hughes Family exercised all their rights and acquired 986,734 units upon exercise and 142,290 additional units pursuant to the Additional Subscription Privilege. The Hughes family owned 5,045,966 units or approximately 55.8% of the outstanding units as at October 15, 2007.

**Public Storage Canadian Properties
Partnership Highlights**

| | Q106 | Q206 | Q306 | Q406 | Q107 | Q207 | Q307 | 2006 YTD | 2007 YTD |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|
| Operations | | | | | | | | | |
| "Same Store" average occupancy | 87.1% | 88.2% | 87.3% | 85.4% | 85.6% | 88.7% | 89.4% | 87.5% | 87.9% |
| "Same Store" annualized realized rental rates ⁽¹⁾ | \$15.10 | \$15.93 | \$16.21 | \$15.97 | \$15.96 | \$16.11 | \$16.60 | \$15.75 | \$16.23 |
| Rental income | \$4,322,000 | \$4,772,000 | \$5,473,000 | \$5,279,000 | \$5,314,000 | \$5,691,000 | \$5,955,000 | \$14,567,000 | \$16,960,000 |
| % change from prior year | 11.5% | 13.4% | 22.4% | 22.0% | 23.0% | 19.3% | 8.8% | 16.1% | 16.4% |
| Net income | \$1,528,000 | \$2,023,000 | \$2,062,000 | \$1,676,000 | \$1,632,000 | \$2,966,000 | \$1,677,000 | \$5,613,000 | \$6,275,000 |
| Net income per Unit | \$0.32 | \$0.36 | \$0.29 | \$0.23 | \$0.23 | \$0.41 | \$0.23 | \$0.95 | \$0.87 |
| % change from prior year | (5.9%) | (7.7%) | (27.5%) | (42.5%) | (28.1%) | 13.9% | (20.7%) | (16.7%) | (8.4%) |
| Funds from Operations (FFO) ⁽²⁾ | \$2,177,000 | \$2,618,000 | \$3,250,000 | \$2,900,000 | \$2,860,000 | \$3,172,000 | \$3,106,000 | \$8,045,000 | \$9,138,000 |
| FFO per Unit | \$0.45 | \$0.47 | \$0.45 | \$0.40 | \$0.40 | \$0.44 | \$0.43 | \$1.37 | \$1.26 |
| % change from prior year | 0.0% | (7.8%) | (15.1%) | (25.9%) | (11.1%) | (6.4%) | (4.4%) | (8.1%) | (8.0%) |
| EBITDA ⁽²⁾ | \$2,383,000 | \$2,809,000 | \$3,318,000 | \$2,936,000 | \$2,952,000 | \$3,270,000 | \$3,497,000 | \$8,640,000 | \$9,719,000 |
| EBITDA per Unit | \$0.49 | \$0.50 | \$0.46 | \$0.41 | \$0.41 | \$0.45 | \$0.48 | \$1.47 | \$1.34 |
| % change from prior year | 8.9% | (7.4%) | (17.9%) | (19.6%) | (16.3%) | (10.0%) | 4.3% | (4.5%) | (7.6%) |
| Stock Price | | | | | | | | | |
| Close | \$23.75 | \$20.00 | \$21.71 | \$22.75 | \$23.85 | \$22.84 | \$20.80 | \$21.71 | \$20.80 |
| High | 25.00 | 23.75 | 22.00 | 23.50 | 24.77 | 24.54 | 23.76 | 25.00 | 24.77 |
| Low | 22.00 | 19.55 | 20.00 | 20.50 | 22.40 | 22.84 | 20.80 | 19.55 | 20.80 |
| Distribution per Unit | \$0.45 | \$0.45 | \$0.45 | \$0.45 | \$0.45 | \$0.45 | \$0.45 | \$1.35 | \$1.35 |

(1) Realized rent per square foot represents the actual rental revenue earned per occupied square foot.

(2) FFO and EBITDA are supplementary performance measures for real estate companies used by investors and analysts. These non-GAAP financial measures do not have any standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. FFO is equal to net income computed in accordance with GAAP before depreciation, amortization and gains or losses on sale of real estate assets. EBITDA is equal to earnings before interest income, interest expense, taxes, depreciation and amortization. FFO and EBITDA do not take into consideration scheduled principal payments on debt, capital improvements, distributions or other obligations of the Partnership. Accordingly, FFO and EBITDA are not substitutes for the Partnership's cash flow or net income as a measure of the Partnership's liquidity or operating performance or its ability to pay distributions.

Copies of the Partnership's financial statements, tax reporting information, press releases, annual information form and other information can be obtained from either the Partnership's web site (www.publicstoragecanada.com) or from the System for Electronic Document Analysis and Retrieval ("SEDAR") web site (www.sedar.com). Additionally, the above mentioned information can be obtained from the Partnership by contacting the Partnership's Investor Communication Department at (866) 772-2623, provided the Partnership may require the payment of reasonable charges where the individual requesting the information is not a unitholder of the Partnership.

Web site

www.publicstoragecanada.com

Partnership's Corporate Office

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